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DIA and DOS review(s) completed.

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EUROPEAN COMMUNITIES: London and Bonn will be the principal parties in hard bargaining over a regional development fund and a common energy policy at the next Council meeting later this month.

British and German officials have been attempting to resolve the sharp differences over regional development aid that have threatened to provoke a community crisis. It is still unclear whether London is prepared to accept the improvements the Germans are prepared to make in their financial contribution, and whether the British will agree to a common approach to energy problems. Difficulty in agreeing has now led to a postponement of the Council meeting, originally scheduled for January 7, to January 14.

EC Commission Vice President Simonet, meanwhile, hopes the Commission will approve a recommendation to the Council that the EC respond positively to the US proposal for an energy action group, a move favored by Bonn. The West Germans fear the Council may not be able to agree on a common approach to energy problems, however, and have suggested that the members first seek a means of international cooperation--such as the OECD--that would not require the prior development of a common EC position on the energy action group proposal.

A senior British official earlier this week stressed the importance Britain attaches to satisfactory settlement of the dispute over the regional development fund. He maintained that Britain needs to demonstrate to the British public some tangible benefits from membership at the end of the first year and that Prime Minister Heath has a heavy personal stake in getting a satisfactory settlement. London believes the West Germans alone oppose a regional fund at the level of \$2.75 billion proposed by the Commission.

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[redacted]

Bonn still maintains that the Commission figure is too high and, in addition, wants tighter budgetary control. The West Germans, moreover, favor limiting the beneficiaries to the most underdeveloped areas of the community--Ireland, Italy, and the UK--but understand that this could arouse French opposition.

The British have been demanding a fund equal to \$3.75 billion during 1974-76 and hoped to get community approval at the Council meeting on December 17-18 for at least the Commission-proposed total of \$2.75 billion. Instead, Bonn proposed a fund of less than \$1 billion.

[redacted]

INTERNATIONAL MONETARY DEVELOPMENTS: The dollar's latest surge eased on most European exchange markets yesterday. Bundesbank intervention approached \$400 million last week [REDACTED]

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[REDACTED] Bundesbank policy is presently indecisive, pending the monthly meeting of central bankers Monday in Basel. German officials apparently will seek a united European solution to the current market upheaval. Sterling rallied early in the day from a record low, but its strength was shortlived and it closed lower. The dollar strengthened moderately against other major currencies in quiet trading.

The Bank of Japan sold \$400 million yesterday to maintain the 280 yen/dollar exchange rate. The heavy volume in part reflected pent-up demand for dollars as markets opened following a three-day New Year's holiday. The principal factors underlying the strong downward pressure, however, are the gloomy balance-of-payments prospects this year and the consensus of the money traders that devaluation--perhaps to 290 yen/dollar--is imminent.

The price of gold fell \$2.75 an ounce to \$118.50. Recent large fluctuations in the gold price reflect a thin market rather than a change in supply and demand trends.

The full effect of the dollar's new strength, arising from the differential impact of the latest oil price increases on nations' balance of payments, is only beginning to become apparent. The fear of general recession and balance-of-payments difficulties will make preparations for the multilateral trade negotiations more difficult. Prospects for monetary reform, which were already weak, have also been seriously damaged by the currency upheaval. [REDACTED]

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SOUTH VIETNAM: Saigon and the Viet Cong have reached agreement in principle to resume prisoner exchanges, but last-minute hitches may yet develop.

In the current talks, the South Vietnamese proposed the release of some 600 civilian detainees next week as a "first phase" of the new exchanges in return for 410 military prisoners held by the Communists. The Viet Cong reacted favorably to this offer but have avoided making a firm commitment. Saigon's chief negotiator has recommended to President Thieu that the government free 1,500 prisoners even if the agreement falls through.

Attitudes at the top levels of the Saigon government and the Viet Cong will determine just how far the exchange will go. The last exchange in July was broken off when Saigon accused the Communists of inciting a demonstration at the release site. Although Thieu apparently authorized his subordinates to reach a new agreement, he may yet balk at the terms. In the past, he has sought to ensure the release of all South Vietnamese prisoners held by the Communists, including those in Laos and Cambodia. The Viet Cong have never firmly agreed to this provision.

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AFRICA - ARAB STATES: Black African countries, which sided with the Arab states during the latest Middle East war, are moving to cash in on Arab promises of assistance given at the Algiers summit in November.

A special delegation from the Organization of African Unity (OAU) is in Cairo to arrange a meeting between Arab foreign and petroleum ministers and a new OAU committee set up to maintain liaison with the Arabs. Such a meeting would take up three major demands voiced by the OAU liaison committee at its first meeting in Addis Ababa last month:

--arrangements to alleviate the effects on African states of the Arab oil embargo;

--African participation in the management of an Afro-Arab development bank proposed by the Arabs;

--increased funding of projected Arab technical assistance programs in Africa.

The hard-pressed Africans are seriously concerned by oil production cutbacks and spiraling prices. At the minimum, the OAU is seeking to negotiate a long-term agreement with Arab producers to supply oil directly to each OAU member state. The Africans will also press for concessionary oil prices, but they are not optimistic on this issue. Several African countries have already begun bilateral moves to assure their oil needs. Zambia and Zaire, for example, have concluded special state-to-state supply deals with Arab and North African exporters, and Zaire and Ghana are considering purchasing or leasing oil tankers.

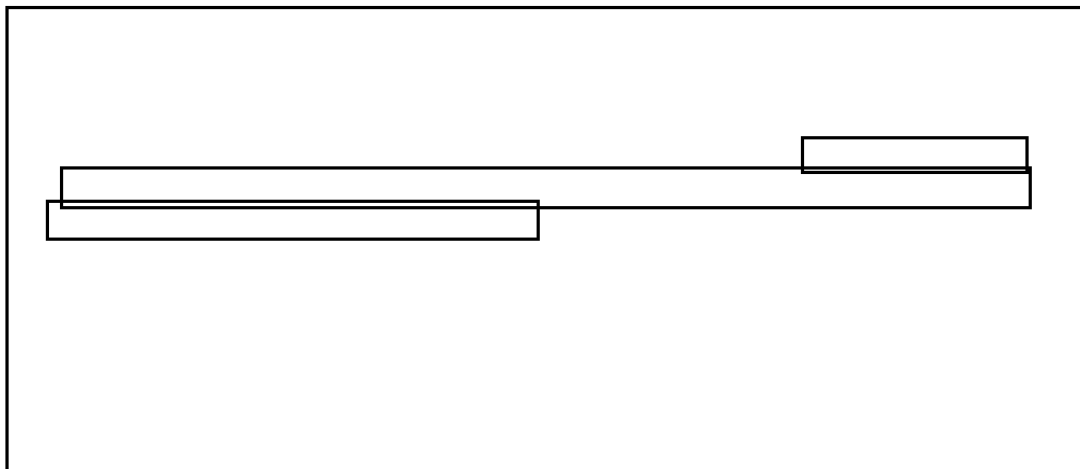
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USSR: A record number of Jews emigrated from the USSR to Israel in 1973. Year-end figures provided by the Dutch, who process Israel-bound Jews in Moscow, show a total of 34,790 emigrants, including 3,068 who left in December. The year's total was nearly 11 percent above the previous record--31,413 in 1972. Moscow will use these figures to counter Western pressures at the European security talks and to parry US critics who link expanded trade cooperation to emigration.

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**These items were prepared by CIA without consultation with the Departments of State and Defense.*

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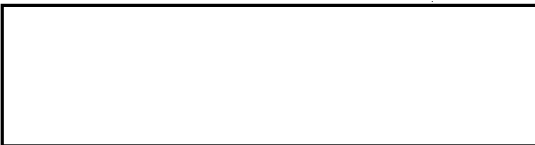
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